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TO : ANDREW WHITE

CC : MARK DUERST
MARC FIRESTONE
JOHN SMITH

FROM : ROB CALL
MARKETING AND SALES MANAGER
ALMATY TOBACCO COMPANY

DATE : 21 MARCH 1994

SUBJECT : CORPORATE AFFAIRS VISIT TO ATK

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Dear Andrew :

I'm glad to hear that you will be coming to visit. With regard to your note to Mark Duerst, let me briefly outline the current situation and priorities.

We are starting from scratch. If there are any real corporate affairs resources here I am unaware of them! Four members of the local management listened to an overview presentation by Stig Carlson and Brian Grow in Lausanne in December. It is planned to send Tair, the President of ATK, to Moscow for several days in May to attend a corporate affairs meeting. We appreciate that we need a full-time CA person, however, I expect that it will be many months before the appropriate individual can be recruited. I suppose that Mark is the only expat with any CA training or experience.

Burson-Marsteller is the only local PR-type firm which I know of. I have been in touch with Kyra Cheremetyf and her team for some time. They have a generous US AID contract to work with the State Property Committee to promote privatization. ATK is one of the few successes for them to point to, so our goals are in alignment and we are cooperating. Nonetheless, Kyra's recent memo stating that the ATK privatization was viewed negatively by the government and the public was ridiculous.

The most useful outside resource is Yuri Maltsev of Clifford-Chance law firm. He is intimately familiar with our situation and knows the local government and legal situation better than anyone else. I will also arrange meetings with the US embassy people, who are actually much more helpful than at any other embassy I've known.

We are fortunate that the CA situation is extremely good. Government relations are terrific. There are no restrictions on press freedoms. Employee relations are

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excellent for this period in an acquisition. The local press reports have been consistently favorable even though we have done very little besides making plenty of free cigarettes available at the first and only press conference. There are no community relations problems.

As for our priorities, it is a matter of protecting the good situation we find ourselves in. As I see it, our favorable relations with the government need to be utilized to implement legislation. There are three key pieces of legislation which we proposed in our acquisition agreement. These are a Marketing Code, a Law on Mandatory Health Warnings, and various tax reforms, including excise, import and export duties.

The Marketing Code is intended as a pro-active legislative protection on freedom of advertising. A draft was carefully considered at the time of the tender. (See attached.) It was received by the Kazakh government with no negative comments. Clifford-Chance commented that the style of our draft legislation is somewhat different from the typical law of Kazakhstan and agreed to re-format it to look more like a Kazakh law. I don't know where this stands. As far as I know, no action has been taken to encourage adoption of this draft legislation.

The Law on Mandatory Health Warnings is intended to ensure that Philip Morris and ATK brands (which will carry HWLs as a matter of company policy) are not at a disadvantage in the market versus competitors. It is also intended to make it easier for the Kazakh government to ensure that duty is collected on all imported cigarettes since the warning will have to be in both Kazakh and Russian. Draft legislation was carefully considered and submitted as part of the tender proposal. (See attached.) The status of this proposed legislation is the same as the Marketing Code.

The tax and duty issues are more complicated. In this case, we need to change the status quo, not just maintain a favorable situation. Without going into the details, you can imagine how we would propose to restructure the tax system. John Smith and Colin Harding have prepared a thorough proposal and have already presented it to the Tax Policy Department at the Ministry of Finance. Relations with the Ministry of Finance are excellent. (We took two Ministers, including the Finance Minister to Richmond last year, and have been an active sponsor in one of his pet projects.) Bill Ramirez is maintaining contact with the Finance Ministry on many of these tax issues.

John Smith is coming out to Almaty for a meeting on the 28th. I suggest that you speak with him and Bill Ramirez to get briefed on the details and status of their proposals before you come out.

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These legislative items will be most easily passed while the goodwill generated by the acquisition is still fresh. I see them as our first priority. Excellent proposals exist in each case--it is a matter of the resources and strategy to implement them.

Press and community relations will need to be built upon as well, but they are not as pressing as the legislative issues. The major community relations project for this year will be the charitable contributions which are required under our purchase agreement. Again, not much has been done on this yet, but when we have specific donations in mind we could use your assistance in coordinating an event to mark the occasions. We welcome your thoughts on employee relations, but you will see that this is one area which the local management has in good hands already.

I look forward to discussing this with you in more detail in Almaty. Have a comfortable trip.

Kind regards,



Rob Call

Attachments : Relevant sections from the Business Plan/Purchase Agreement :

- Draft Marketing Code
- Draft HWL legislation
- Community Relations Support

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